

Message Text

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C O N F I D E N T I A L SECTION 1 OF 3 MADRID 7492

E.O. 11652: GDS

TAGS: PINT, SP

SUBJECT: SUAREZ AT THREE MONTHS

BEGIN SUMMARY: THE KING DID WELL TO REPLACE ARIAS AND SUAREZ SEEMS TO HAVE BEEN THE RIGHT CHOICE. AFTER A STUMBLING START, SUAREZ HAS RECOVERED THE INITIATIVE THROUGH DIALOGUE, AND ABOVE ALL, A WORKABLE POLITICAL REFORM PROGRAM. THE PROSPECT OF ELECTIONS HAS BECOME A MAJOR FACT OF LIFE, SPARKING A FRAGA-LED COALITION ON THE RIGHT AND INCIPIENT EFFORTS BY THE GOS AND CERTAIN LIBERAL CHRISTIAN DEMOCRATS TO FORM A CENTER PARTY AS A BULWARK FOR THE REFORM AND AGAINST POLARIZATION. ON THE LEFT, THE DEMOCRATIC OPPOSITION IS TORN BETWEEN THE ATTRACTIVENESS OF THE SUAREZ PROGRAM AND ITS HABITUAL POSTURING, WITH THE PCE TRYING TO HOLD THE SOCIALISTS HOSTAGE TO LEGALIZATION OF THE COMMUNISTS. THE MOST SEVERE THREAT STEMS FROM THE CONJUNCTION OF ECONOMIC SLUMP, LABOR UNREST, AND REGIONAL DISCONTENT. VIOLENCE-PRONE EXTREMISTS OF RIGHT AND LEFT FEED UPON EACH OTHER

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AND THE POSSIBILITY OF A DANGEROUS CYCLE OF DISTURBANCES CANNOT

DE DISCOUNTED. BUT THE SENSE OF DRIFT UNDER ARIAS
IS GONE, AND SUAREZ HAS REASONABLE PROSPECTS OF SUCCESS.
END SUMMARY.

1. THE EVIDENCE OF THREE MONTHS SUGGESTS THE KING DID
WELL TO REPLACE ARIAS. THE CHOICE OF SUAREZ SEEMS TO HAVE
BEEN THE RIGHT ONE, SO MUCH SO THAT SOME OBSERVERS WORRY
THAT THE KING MAY GET OVERCONFIDENT. SUAREZ, AFTER A
STUMBLING START (OPUS DEI RUMORS, THE AREILZA PROBLEM,
AND THE TROUBLE IN FORMING A CABINET) HAS RECOVERED THE
INITIATIVE THROUGH DIALOGUE AND THE NEW REFORM PROGRAM.

2. THE CABINET, LARGELY CHRISTIAN DEMOCRATIC, HAS
TURNED OUT TO BE A FAIRLY COHERENT GROUP ON THE CIVILIAN
SIDE. THERE HAS BEEN TALK OF DISSENSION,
AND RUMORS OF A CHANGE OR TWO, BUT DIFFERENCES SEEM LARGELY
TACTICAL RATHER THAN OVER FUNDAMENTAL ISSUES, IN CONTRAST
TO THE ARIAS GOVERNMENT.

MOST OF ALL,
IN PRESENTING A WORKABLE, COHERENT POLITICAL REFORM
PROPOSAL, SUAREZ GOT THE REFORM PROCESS MOVING AGAIN. HE
HAS EMPHASIZED THE NEED FOR THE PEOPLE TO ELECT THEIR
REPRESENTATIVES TO CONSTRUCT A NEW POLITICAL SYSTEM AND
DEAL WITH THE ISSUES OF MODERN SPAIN. IT WILL NOT BE
EASY. ECONOMIC AND LABOR TROUBLES THREATEN. THE DECISION
TO PUT THE REFORM PACKAGE THROUGH THE LARGELY FRANCO-ERA
DERIVED CORTES POSES RISKS. THE QUESTION OF WHETHER THE
DEMOCRATIC OPPOSITION, AND PARTICULARLY THE SPANISH
SOCIALISTS (PSOE) WILL GET THEMSELVES TOGETHER AND PLAY
THE DEMOCRATIC POLITICAL GAME THEY HAVE SOUGHT FOR SO LONG,
REMAINS UNANSWERED LARGELY BECAUSE OF THE SPOILING ROLE
THE SPANISH COMMUNIST PARTY IS PLAYING IN ITS EFFORTS
TO HOLD THE OPPOSITION HOSTAGE TO ITS LEGALIZATION,
SOMETHING THE SPANISH MILITARY HAS NOT WANTED TO PERMIT,
AT LEAST UNTIL AFTER THE FIRST ELECTIONS. REGIONAL ISSUES,
SOME POSTPONABLE, SOME NOT, E.G. THE CONTINUING PROBLEM OF
POLICE BEHAVIOR IN THE BASQUE COUNTRY, ARE TROUBLESOME
THOUGH PROBABLY MANAGEABLE WITH SKILL AND LUCK. THE SYMBIOTIC
RELATIONSHIP BETWEEN VIOLENCE-PRONE EXTREMEISTS OF RIGHT
AND LEFT REMAINS. BUT NONETHELESS THE SUAREZ GOVT HAS
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GIVEN SPANISH POLITICAL DEVELOPMENT SORELY NEEDED LEADER-
SHIP AND MOMENTUM.

4. THE MILITARY ELEMENT IN THE EQUATION. THE KING AND
SUAREZ, IN ACCEPTING LT. GEN. DE SANTIAGO'S RESIGNATION
AND PUTTING IN LT. GEN. GUTIERREZ MELLADO, HAVE PROBABLY
TAKEN AN IMPORTANT STEP IN GETTING THE MILITARY LEADERSHIP
MORE FIRMLY IN LINE WITH THE PROGRAM. GUTIERREZ MELLADO'S

FUNDAMENTAL POLITICAL VIEWS HAVE BEEN SOMETHING OF AN ENIGMA, BUT HE HAS JUST TOLD ME HE IS COMMITTED TO REFORM THOUGH HE COULD NOT SPEAK UP BEFORE. MOREOVER, HE IS KNOWN AS A MODERN-MINDED GENERAL, WELL LIKED AMONG FIELD GRADE AND JUNIOR OFFICERS. THOUGH THERE HAS BEEN NO CLOSE PERSONAL RELATIONSHIP, THE KING HAS PUSHED HIM AHEAD OF HIS FELLOW LIEUTENANT GENERALS TO SOME PRIVATE GRUMBLING. THE FAR RIGHT SEEKS TO MAKE AN ISSUE OF GENERAL DE SANTIAGO'S RESIGNATION. (LIKE THEM, HE OPPOSED ELECTIONS AND PARTICULARLY LABOR REFORM) BUT NONETHELESS THE IMMEDIATE EFFECT HAS BEEN TO REMOVE A MAJOR OPPONENT OF REFORM FROM THE MILITARY HIERARCHY, SOMETHING PARTICULARLY USEFUL SHOULD IT BECOME NECESSARY TO DISSOLVE THE CORTES. AND SHOULD SUAREZ FAIL, GUTIERREZ MELLADO IS IN A POSITION TO REPLACE HIM.

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5. THE PARLIAMENTARY REFORM.

THE SUAREZ PLAN, SIMPLE AND STRAIGHTFORWARD, RETAINS THE BI-CAMERAL IDEA, WHICH IS NON-CONTROVERSIAL. IT DIFFERS FROM THE COMPLEX, UNWORKABLE ARIAS PLAN IN SEVERAL CRITICAL ASPECTS, MANY OF WHICH ARE CONSONANT WITH REASONABLE

DEMOCRATIC DEMANDS.

--THE NEW PARLIMENT WILL BE GIVEN THE MANDATE TO REVISE THE SPANISH CONSTITUTIONAL STRUCTURE, WHICH IN FACT WAS DESIGNED FOR FRANCO'S PERSONAL NEEDS.

--THE UPPER HOUSE (SENATE) WILL BE SUBORDINATE TO THE LOWER HOUSE IN SOME DEGREE, THE LIKEHOOD OF PARLIAMENTARY STALEMATE -- IMPLICIT IN THE ARIAS PROPOSAL.

--AT LEAST 4/5THS OF THE UPPER HOUSE WILL BE ELECTED BY UNIVERSAL SUFFRAGE (ALONG TERRITORIAL LINES AND BY MAJORITY) FRANCO'S 40 ARE GONE, AS IS THE CORPORATE NATURE OF THE UPPER HOUSE UNDER ARIAS' PLAN. THE KING MAY NAME UP TO ONE-FIFTH OF THE MEMBERS.

--THE LOWER HOUSE WILL BE ELECTED ON A PRO-PORTIONAL BASIS. WE UNDERSTAND THE KEY ELECTORAL LAW WILL PLACE SAFEGUARDS TO KEEP MINI-PARTIES FROM HOLDING CONFIDENTIAL

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SEATS (THE OPPOSITION BADLY WANTS PROPORTIONAL REPRESENTATION, AND THIS IS A MAJOR CONCESSION).

6. THE PRESS, AND MOST POLITICAL SECTORS - AT LEAST IN PRIVATE - HAVE REACTED FAVORABLY TO THE PROPOSAL, THOUGH KEY QUESTIONS, SUCH AS THE ELECTORAL LAW AND THE RIGHT OF CANDIDATE ACCESS TO THE MEDIA AND PUBLIC PLACES REMAIN TO BE RESOLVED. THE RIGHT AND THE FAR LEFT (AND OF COURSE THE PCE) ARE OPPOSED. THE FRANCOIST STRATEGY IN THE CORTES WILL NOT BE TO OPPOSE THE GOS FRONTALLY BUT TO AMEND THE MEASURE OUT OF SHAPE. THE GOS APPEARS CONFIDENT, HOWEVER, THAT IT CAN CARRY IT OFF IN THE CORTES.

7. THE ECONOMIC PICTURE - A COMPLICATING FACTOR.

--RECESSION CONTINUES. REAL GROWTH RATES THIS YEAR WILL NOT EXCEED THREE PERCENT AND MAY WELL BE A GOOD BIT LESS. DEFICIT IN THE PUBLIC SECTOR HAS LED THE GOS TO RESTRICT PRIVATE CREDIT ACCENTUATING THE SLOWDOWN. COLLECTIONS ARE SLOW AND MANY FIRMS ARE BEGINNING TO SUFFER SEVERE CASH FLOW PROBLEMS. GOS FISCAL PERFORMANCE HAS IMPROVED RECENTLY AND IT HOPES TO SOON RELAX CREDIT STRINGENCY SOMEWHAT. INVESTMENT DECISIONS ARE BEING POSTPONED WHERE POSSIBLE AND UNEMPLOYMENT IS RUNNING AT ABOUT 5.5 PERCENT. INFLATION IN CALENDAR 1976 IS EXPECTED TO BE CLOSE TO, BUT ON THE DOWN SIDE OF, 20 PERCENT.

--SPAIN WILL PROBABLY RUN A CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT IN EXCESS OF \$3 BILLION. IMPORTS ARE DOWN SOMEWHAT BECAUSE OF RECESSION. EXPORTS DURING JULY AND AUGUST SHOWED IMPROVEMENT, BUT TOURISM RECEIPTS CONTINUE BELOW LAST YEAR SO THERE IS LITTLE GROUNDS FOR MID-TERM OPTIMISM RE THE BALANCE OF PAYMENTS.

BECAUSE OF INFLATION AND INTERNATIONAL EXCHANGE MOVEMENTS, ADVANTAGES DERIVED FROM EARLIER DEVALUATION HAVE BEEN DISSIPATED AND PRESSURES ARE RISING FROM EXPORT SECTORS FRO FURTHER DEVALUATION. GOS OFFICIALS PRIVATELY ADMIT THAT ANOTHER DEVALUATION, PROBABLY THROUGH THE "FLOAT" MECHANISM, APPEARS INEVITABLE SOMETIME DURING THE NEXT THREE OR FOUR MONTHS.

--THE CURRENT GOS DOES NOT FEEL IT HAS A MANDATE
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TO MAKE ANY FUNDAMENTAL CHANGES TO MEET THE ECONOMIC SITUATION. THEY VIEW THEIR ROLE AS CONFINED TO APPLYING REMEDIAL MEASURES TO KEPP THINGS GOING UNTIL ELECTIONS PRODUCE A GOVERNMENT WITH A POPULAR MANDATE. MEASURES TO DATE TO STIMULATE EXPORTS AND THE STOCK MARKET, RAISE TAXES AND REDUCE IMPORTS HAVE BEEN INTENDED TO PROVIDE SOME SHORT-TERM IMPROVEMENT IN FISCAL AND MONETARY PICUTRE. BUSINESS GROUPS AND ECONOMISTS ARE BECOMING BOCAL IN ADVOCATING A STRONGER GOVERNMENT ROLE IN THE ECONOMY AND ARE INCREASINGLY POINTING TO THE EXAMPLE OF THE FRENCH AUSTERITY PROGRAM.

--DURING NEXT SEVERAL MONTHS LABOR CONTRACTS INVOLVING SOME ONE MILLION INDUSTRIAL WORKERS COME UP FOR RENEGOTIATION. DURING THE PREVIOUS ROUND OF RENEGOTIATIONS EARLY THIS YEAR INCREASES AVERAGING BETWEEN 25 AND 30 PERCENT WERE THE RULE DESPITE OFFICIAL WAGE "GUIDELINES" OF 18 PERCENT. THERE IS GENERAL AGREEMENT THAT HOLDING THE WAGE LINE OVER THE NEXT SEVERAL MONTHS TO NO MORE THAN THE INFLATION RATE AND HOPEFULLY SOMEWHAT LESS IS CRUCIAL IF INFLATIONARY PRESSURES ARE TO BE DEAMPENED DOWN. WHETHER THE GOS FEELS POLITICALLY ABLE TO TAKE SUCH A LINE REMAINS TO BE SEEN, BUT FAILURE TO DO SO WHEN COUPLED WITH PROBABLY DEVALUATION AND THE LIKELIHOOD OF OIL PRICE INCREASE BY OPEC WOULD GIVE INFLATION A PUSH AND MAKE A LATER AUSTERITY PROGRAM THAT MUCH MORE DIFFICULT.

8. THE LABOR PICTURE.

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C O N F I D E N T I A L SECTION 3 OF 3 MADRID 7492

E.O.11652: GDS

TAGS: PINT, SP

SUBJECT: SUEAEZ AT THREE MONTHS

8. THE LABOR PICTURE. THE GOVERNMENTS STILL PENDING LABOR REFORM PLANS (INCLUDING LEGALIZATION OF TRADE UNIONS) COUPLED WITH PREDICTIONS OF A "HOT AUTUMN" HAVE KEPT THE POT BOILING. DURING THE COURSE OF HIS RECENT SERIES OF INFORMAL MEETINGS WITH OPPOSITION LABOR GROUPS, E.G. SOCIALIST AFFILIATED, COMMUNIST DOMINATED WORKERS COMMISSIONS, ETC, SYNDICAL RELATIONS MINISTER DE LA MATA HEARD A CLEAR MESSAGE THAT A) DISMANTLEMENT OF THE OFFICIAL SPANISH SYNDICAL ORGANIZATION (SSO) WAS ESSENTIAL AND B) LABOR WAS NOT WILLING TO ENTER INTO ANY KIND OF COMPERDENSIVE SOCIAL PACT WITH GOVT AND MANAGEMENT IN THE CURRENT TRANSITION PERIOD. DE LA MATA, UNDER ATTACK FROM THE RIGHT, WILL APPARENTLY PROPOSE LEGISLATION TO LEGALIZE TRADE UNIONS AND ALSO GUARANTEE THE FUTURE PUBLIC EMPLOYMENT OF SOME 30,000 SSO FUNCTIONARIES. IF, AS NOW ANTICIPATED, THE
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LEGISLATION IS ROUTED THROUGH THE CORTES AND PERHAPS TO REFERENDUM FINAL DISPOSITION WOULD BE DELAYED. THE TEMPO OF LABOT UNREST HAS PICKED UP. THERE ARE 30,000 POSTAL WORKERS ARE JUST ENDING A NATIONWIDE STRIKE, PLUS OVER 20,000 CONSTRUCTION WORKERS

IN NORTHERN SPAIN. WHAT WITH SOME TWO MILLION WORKERS TO BE
AFFECTED BY THIS FALL'S WAGE NEGOTIATION, RUMORS
CONTINUE (AND DENIALS) THE GOS WILL FREEZE EXPIRING
COLLECTIVE BARGAINING AGREEMENTS WITH A PERIODIC WAGE
INCREASE PROVISION TIED TO THE COST OF LIVING INDEX.
PLUS PERHAPS A COUPLE OF EXTRA POINTS THROWN IN. EVEN
IF THE GOVERNMENT ATTEMPTS TO BALANCE THE SCALES BY
INSTITUTING SELECTED PRICE CONTROLS, ETC, AS WELL
AS CONTROLS, LABOR CAN BE EXPECTED TO SET UP A HOWL
FINALLY WE ARE ALREADY WITNESSING INCREASED FIGHTING
AMONG TRADE UNIONS COMPETING FOR FAVOR AMONG THE
LARGE MASS OF UNORGANIZED SPANISH WORKERS.

9. THEIR PROCESS OF POLITICAL
DEFINITION. RECENT SHIFTS IN THE POLITICAL SPECTRUM HAVE BROUGHT
A NEW DYNAMIC TO THE PROCESS OF POLITICAL DEFINITION,
BECAUSE THE PROSPECT OF MEANINGFUL ELECTIONS HAS BECOME
A DOMINANT FACT OF POLITICAL LIFE. FRAGA'S DECISION TO
TRY TO BECOME THE LEADER OF THE SPANISH RIGHT. IN AN
UNEASY ALLIANCE WITH A NUMBER OF HIS FORMER ENEMIES FROM
THE HEARTLAND OF THE FRANCO REGIME. HAS ACTED AS A
CATALYST. THE LONG VIEW SUGGESTS THIS COULD BE THE BEGINNING
OF A RATIONAL PROCESS OF POLITICAL DEFINITION, LEADING TO
COHERENT POLITICAL CHOICES FOR THE ELECTORATE. BUT THE
SPECTOR OF RIGHT WING UNITY, AND THE UNPREDICTABILITY OF
FRAGA, HAVE SPARKED SERIOUS, GENUINE CONCERN IN THE GOVT,
IN THE PRESS AND AMONG VARIOUS CENTRIST GROUPINGS THAT THE
"QUADRUPLE ENTENTE" OF
RIGHT WING POLITICAL GROUPS COULD SPARK
POLITICAL POLARIZATION, PLAYING INTO THE HANDS OF THE
PCE AND SQUEEZING THE STILL UNORGANIZED CENTER OF THE
SPANISH POLITICAL SPECTRUM. THIS CONCERN HAS PROMPTED URGENT
EFFORT TO ONCE AGAIN TRY TO PUT TOGETHER A CENTRIST PARTY
WITH CHRISTIAN DEMOCRATS (TACITO, GOVERNMENT ELEMENTS, ETC)
PLUS OTHERS, SUREZ AND OZORIO, THE CONSERVATIVE CHRISTIAN
DEMOCRAT WHO IS SECOND VICE PRESIDENT OF THE GOVT, HAVE
EMBARKED UPON A QUIET CAMPAIGN TO GET SECTORS OF THE
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BUSINESS AND FINANCIAL COMMUNITY TO PUT UP FUNDS, AS OTHER
MONIED SECTORS ARE DOING FOR THE CONSERVATIVE ALLIANCE, ON
BEHALF OF THE CENTER. THE SIDELY RESPECTED ALVAREZ DE MIRANDA
AND HIS LIBERAL CHRISTIAN DEMOCRATIC FRIENDS
ARE ALSO INVOLVED BUT NOTHING HAS JELLED TO DATE.
IN PASSING WE JUDGE THE KING CANNOT BE TOO HAPPY
WITH THE PROSPECT THAT FRAGA MIGHT RE EMERGE AS A DOMINANT
POLITICAL LEADER.

10. THE OPPOSITION DEMOCRATIC AND OTHERWISE.
THOUGH HISTORICS CONTINUE TO BE ALL TOO MUCH A PART

OF THE OPPOSITION SCENE, THOSE OPPOSITION GROUPS WITH A REAL STAKE IN PLURALISTIC DEMOCRATIC ARE BEING COMPELLED TO REASSESS THEIR RELATIONSHIP TO THE GOVT AND OTHER POLITICAL GROUPINGS AND TO BEGIN SERIOUS PLANNING FOR THE ELECTORAL CONTRAST.

IN THE OPPOSITION PLATAJUNTA, THERE IS EVIDENCE OF INCREASED STRESS BETWEEN THOSE MEMBERS WHO HAVE A STAKE IN ELECTIONS, SUCH AS THE SOCIALISTS AND CHRISTIAN DEMOCRATS, AND THOSE WHO DO NOT, SUCH AS THE COMMUNITIS, THE FAR LEFT MINI-GROUPS AND THE SO CALLED INDEPENDENTS. THE COMMUNISTS (PCE) ARE CAUGHT BETWEEN THE DESIRE FOR THE LEGITIMACY WHICH ELECTORAL PARTICIPATION WOULD REQUIRE AND THE FACT THAT THE GOVT IS UNLIKELY TO PERMIT THEM TO PARTICIPATE, AT LEAST UNDER THEIR OWN BANNER, AND THAT, EVEN IF THEY DO CONTEST THE ELECTIONS, THEIR MODEST SHARE OF THE VOTE WOULD FLY IN THE FACT OF THEIR CLAIMS, AT THE MOMENT THEY VIGOROUSLY ATTACK THE SUAREZ REFORM.

THE SOCIALISTS (PSOE) REMAIN PARTICULARLY BURDENED WITH THE PCE PROBLEM, SHOWING CLOSE TO SCHIZOPHRENIA IN THE CONTRAST BETWEEN PRIVATE ATTITUDES AND PUBLIC ANNOUNCEMENTS VIS A VIS THE REFORMS. SUAREZ NEEDS THE PSOE IN THE LEGAL POLITICAL GAME, THE PSOE LEADERSHIP WANTS TO ENTER, BUT IS NERVOUS ABOUT POTENTIAL CHALLENGES TO IT AT ITS FORTHCOMING CONGRESS (TO WHICH MAJOR WESTERN EUROPEAN SOCIALIST FIGURES PLAN TO COME) AND AFRAID, SO LONG AS THE PCE IS NOT LEGALIZED OF CHARGES OF SELLING OUT TO SUAREZ. THE CURRENT IMPASSE BETWEEN THE PSOE AND THE GOS POSES A PARTICULARLY DIFFICULT PROBLEM, THOUGH ON THE BRIGHT SIDE

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THE PSOE HAS BEGUN TO ATTACK SOME OF THE MORE EXOTIC FIGURES THAT INHIBIT THE OPPOSITION PLATAJUNTA.

11. IN SUM. THE SENSE OF DRIFT UNDER ARAIS IS GONE. SUAREZ HAS SET A SENSIBLE COURSE, BUT AT THE SAME TIME THE PROCESS HAS COME CLOSER TO THE SHOALS AND REEFS THROUGH WHICH SUAREZ MUST NAVIGATE. IT SHOULD BE BORNE IN MIND THAT THERE ARE MANY DIFFICULTIES AND POTENTIAL OBSTACLES ALONG THE ROUTE AND WE CANNOT DISMISS THE POSSIBILITY OF FAILURE. WHILE THIS WOULD NOT NECESSARILY MEAN THAT THE MOVEMENT TOWARD DEMOCRATIC REFORM WOULD BE BLOCKED, THE EFFECTS WOULD BE SEVERE AND WE ONE OF THEM MIGHT DO DAMAGE TO THE KING'S OWN POSITION. HOWEVER AS MATTERS NOW STAND, WE BELIEVE SUAREZ STILL RETAINS INITIATIVE AND HAS REASONABLE PROSPECTS FOR SUCCESS OF HIS REFORM PROGRAM WHICH ALSO LOOKS TO GENERAL ELECTIONS NO LATER THAN JUNE 1977

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